

## FOCAL POINT

### ECB: Lessons from 2022 warrant an insurance hike

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Our Focal Point series explores topical issues on macro, markets and investment

- The Iran war-induced energy price spike will push euro area inflation close to 4% y/y over the coming months. This recalls memories of 2022 when the post-pandemic inflation tsunami, amplified by the war in Ukraine, caught the ECB on the wrong foot.
- That said, the ECB's proprietary key signposts look much better than in 2022: selling price indicators are not flashing red, wage growth is decelerating, inflation expectations have not risen much, the latest ceasefire agreement reduces tail risks to inflation and lower growth will dampen cyclical price pressure.
- But its updated 2025 strategy reflects learnings from 2022: under uncertainty there will be "forceful or persistent" reaction for large, sustained deviations from the rate target. Recently, Pres. Lagarde stated that even a short-lived inflation overshoot could already trigger a measured hike for signalling and credibility reasons.
- But the risks are two-sided: Hikes in 2008 and 2011 were policy mistake and quickly reversed. Moreover, during a bottleneck induced fall in demand hiking strongly could lower inflation but risk recession.
- We deem it slightly more likely than not that the ECB lifts its key rate by 25 bps to 2.25% by June, the upper bound of the neutral policy range and regard market expectations of about 50 bps of hike in 2026 overdone. We acknowledge that risks are tilted towards more hikes if the situation in Iran re-escalates.

Just as the post-pandemic inflation shock was fading, the Iran war in March 2026 sent energy prices sharply higher and darkened the inflation outlook—reviving uneasy memories in the ECB tower. [ECB](#) research suggests public trust did weaken during the last surge: Eurobarometer net trust in the ECB turned negative in early 2022, and CES microdata show the "no trust at all" group rising by late 2023. [Market-based](#) term-structure evidence, meanwhile, indicates long-run inflation expectations stayed close to target, but with tentative de-anchoring at projection-relevant horizons (around two years ahead). Today's setup looks far less dramatic, yet the ECB's updated strategy aims to avoid any perception of backing off on inflation—hence we still expect a 25bp hike in June even within our base scenario that the current ceasefire leads to a peace deal and a gradual re-opening of the Strait of Hormuz.

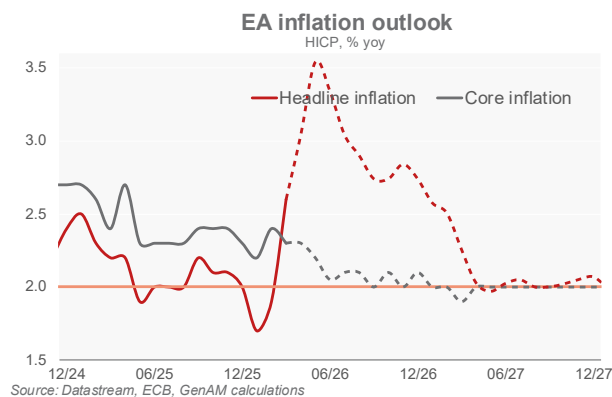
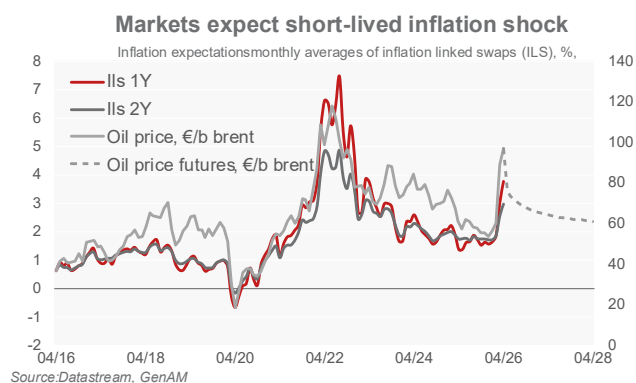
## Short-lived but strong inflation push

Just before the war with Iran, inflation had been moving back toward target. In February, headline inflation stood at 1.9% y/y and underlying inflation at 2.4% y/y. ECB staff projections at the time implied that, after a temporary inflation undershoot in 2026, price stability would be restored in subsequent years.

That outlook has now changed materially. Since March, the average oil price has been around €94/bbl, and it briefly rose above €100/bbl for about one month, up from an average of roughly €60/bbl in February. Prices have also been highly volatile, reflecting shifting news on the potential closure of the Strait of Hormuz and on how persistently oil and gas supplies might be disrupted.

Looking ahead, our base case remains constructive. Following the latest ceasefire agreement and mounting domestic pressure on President Trump to end the conflict quickly, we do not expect a renewed escalation. Instead, we anticipate an agreement by April that allows the Strait of Hormuz to reopen at least in part. On this basis, we expect energy prices to fall meaningfully in the coming months, broadly in line with market expectations (see chart on the left).

Nevertheless, oil prices are unlikely to return quickly to pre-war levels. The recent surge in energy prices will therefore push headline inflation — after 2.6% y/y in March — further up in April and May. Based on our calculations, inflation is likely to peak around 3.5% y/y in May, with risks skewed toward a print closer to 4% y/y. We expect the spike to have largely worked through by mid-2027. On an annual average basis, euro area inflation should be around 2.8% this year and 2.1% next year.



## It's not like 2022 when the ECB's inflation dashboard flashed red ...

For monetary policy, it is crucial to put the current inflation shock into perspective. This episode is not comparable to 2022, when a post-pandemic rebound in demand—especially for services—drove inflation sharply higher and was then amplified by Russia's invasion of Ukraine in February 2022, which triggered an additional energy price spike at a time when inflation was already running at 5.9% y/y.

Against this backdrop, ECB President Lagarde highlighted several signposts at the [March press conference](#): developments in commodity markets, supply bottlenecks, firms'

selling-price expectations, a broad set of demand and confidence indicators, and—importantly—the ECB’s wage trackers (“we will be particularly attentive to wage trackers”).

Operationalizing these indicators suggests that the current configuration is considerably less concerning than four years ago, when selling-price indicators were flashing red (see chart below). Crucially, unlike in 2022, there is currently not (yet) evidence of second-round effects building via wages. The ECB’s proprietary wage tracker points to 2026 wage growth of 2.3% y/y, broadly in line with its long-term average and not inconsistent with a 2% inflation target.

**ECB inflation warning dashboard**  
z-scores of respective variables with higher values indicating higher inflation pressure

		Current situation ...			... vs before start of last hiking cycle in 07/2022			
		15/01/2026	15/02/2026	15/03/2026	15/05/2022	15/06/2022	15/07/2022	15/08/2022
<b>Global factors</b>	Commodity prices	0.40	0.54	1.61	2.74	2.81	2.18	2.11
	Baltic dry index	0.30	0.66	0.67	1.86	1.17	0.71	-0.23
	Global supply chain pressure	-0.18	-0.11	0.00	1.60	1.35	0.90	0.65
<b>Selling price indicators</b>	EC survey man.	-0.16	-0.07	0.41	2.75	2.44	2.08	1.97
	EC survey ser.	0.27	0.24	0.34	2.07	2.06	1.89	1.76
	EC survey retail	-0.01	0.03	0.19	2.54	2.57	2.45	2.32
<b>Labour market pressure</b>	EC survey constr.	-0.12	-0.26	0.03	2.67	2.47	2.24	1.99
	PMI comp.	-0.11	-0.16	0.00	2.97	2.44	2.10	1.65
	PMI ser.	0.20	-0.03	-0.05	2.62	2.28	2.03	1.51
<b>Domestic demand strength indicators</b>	PMI man.	-0.57	-0.32	0.09	2.70	2.04	1.66	1.41
	PMI comp new orders	-0.15	0.13	0.40	-0.70	-0.70	-0.98	-0.70
	PMI ser new business	-0.07	0.04	-0.27	0.44	-0.12	-0.54	-0.67
<b>Labour market pressure</b>	BLS, firm credit demand last quarter	-0.03	-0.03	-0.03	0.72	0.72	0.46	0.46
	BLS, firm credit demand next quarter	-0.20	-0.20	-0.20	0.17	0.17	-0.89	-0.89
	BLS, house loan demand last quarter	0.14	0.14	0.14	0.16	0.16	-0.49	-0.49
<b>Labour market pressure</b>	BLS, house loan demand next quarter	-0.05	-0.05	-0.05	-0.53	-0.53	-2.01	-2.01
	EC capacity utiliz. rate	-0.84	-0.84	-0.84	0.66	0.66	0.48	0.48
	ECB wage tracker	0.26	0.26	0.26	0.22	0.22	0.41	0.41
<b>Labour market pressure</b>	Unemployment rate	-1.28	-1.19		-0.75	-0.75	-0.75	-0.75

### ... but the new ECB strategy warrants less tolerance to an overshoot

That said, it is also important to acknowledge that the ECB has absorbed key lessons from 2022. Its 2025 [strategy update](#) adopts a risk-management approach around a symmetric 2% medium-term inflation target. In particular, the ECB committed to respond with appropriately forceful and/or persistent policy action to large, sustained deviations of inflation from target in either direction—explicitly to prevent the de-anchoring of inflation expectations and the entrenchment of deviations. The update also emphasises a systematic treatment of risks and uncertainty via scenario and sensitivity analysis.

In line with this framework, the ECB presented [alternative scenarios](#) at the March meeting. In the base case, headline inflation rises in 2026 (to 2.6%) and then eases back towards 2.0%. In an adverse scenario, the euro area would see stagnating or slightly contracting activity in the second half of this year, with average inflation spiking to 3.6% in 2026 before moderating in 2027. In a severe stagflation scenario, the ECB considers a 2026 recession and inflation remaining well above target over the forecast horizon (2026/27/28: 4.4%/4.8%/2.8%), as the initial price shock feeds into faster wage growth that only gradually loses momentum towards end-2028.

A few days after the March meeting, President [Lagarde](#) described how the ECB would calibrate its response as an energy shock shifts from “soft” to “hard”. The logic can be summarised as follows:

- “Measured-hike” conditions (large but short-lived overshoot): Energy lifts headline meaningfully above 2% for a spell with limited persistence, yet the ECB judges that not reacting would damage credibility. Expect a small, signalling-type hike if this box is ticked.
- “Forceful or persistent” conditions (entrenched risks): Evident propagation and persistence via re-accelerating wage trackers and negotiated pay, rising firms’ selling-price

expectations and micro price-change frequency, drift in inflation expectations, and renewed core inflation momentum. In this state, action must be appropriately forceful or persistent.

- Scenario test: If data align with the “adverse” (temporary) path, the bar is lower (measured move possible). If reality tilts toward the “severe” path, expect multiple hikes and/or a prolonged tight stance. Scenarios will be reassessed at each meeting.

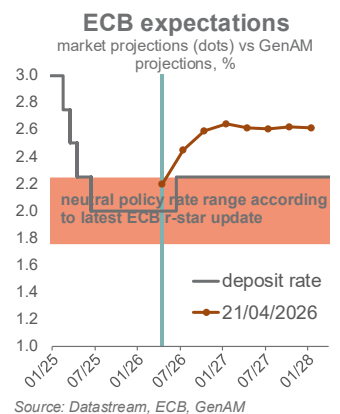
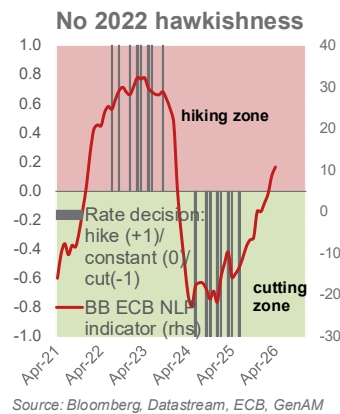
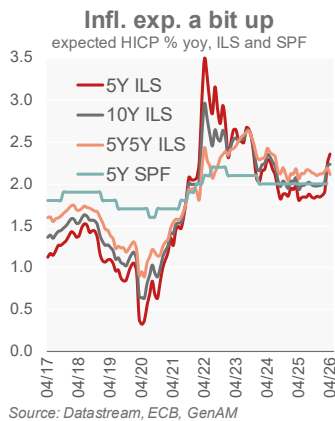
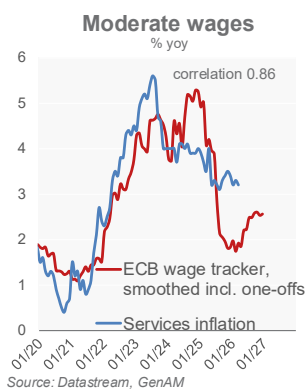
### We think that one 25 bps rate hike will be enough

Markets appear to have internalised the ECB’s message that it will not chicken out on inflation. At the height of the rate hike expectations, pricing briefly implied around 75bp of tightening. As recent Governing Council communication has become more balanced—and the ceasefire has supported expectations of a de-escalation—markets now price closer to 50bp of hikes in 2026. We still view this as too much.

First, we expect the situation to stabilise after April. Domestic political pressure on President Trump to end an unpopular conflict is rising, even if that means falling short of stated objectives (e.g., regime change or Iran’s de-nuclearization).

Second, the macro impulse is ambiguous. Higher energy prices lift inflation mechanically, but they also erode real incomes and weigh on demand. In addition, oil and gas supply disruptions can create downside non-linearities: severe shortages risk constraining transport activity, with knock-on effects across energy-intensive and logistics-dependent sectors. Against that backdrop, the ECB risks repeating past episodes in which pre-emptive tightening proved ill-timed (notably 2008 and 2011) and made things worse.

Third, cyclical price pressure remains limited. The output gap is set to stay negative this year and next. Import prices (Feb 2026: -0.8% y/y) and producer prices (Feb 2026: -3.0% y/y) were still clearly disinflationary in the runup to the Gulf war. Unless evidence of meaningful second-round effects emerges, the case for tighter policy looks weak.



Fourth, the policy rate is already close to neutral. At 2.0%, the ECB’s key rate sits within the neutral range it has referenced (1.75%–2.25%). This contrasts with 2022, when the deposit rate was still at -0.5%—clearly expansionary. While the tone of communication has turned more hawkish, it is not yet at levels that would typically precede a sustained hiking cycle. Even traditionally hawkish voices (e.g., Schnabel) have recently emphasised that there is “no rush” to raise rates and have warned against unnecessary costs.

Overall, we do not see a fundamental need for imminent action, while recognising the ECB's incentive to reinforce credibility with a modest hike. A move as early as 30 April—without updated staff projections (next due in June)—would signal an urgency that is hard to justify on current data and could inadvertently foster expectations of further tightening.

We therefore look for a single 25bp hike at the June meeting, which would lift the key rate to the upper end of the neutral range (2.25%). Holding at 2.25% thereafter would be appropriate even under the ECB's updated reaction function, with recent hawkish rhetoric potentially doing part of the tightening via financial conditions.

Risks are skewed to additional hikes only if the conflict re-escalates materially and persistence becomes visible (in wages, inflation expectations, and underlying inflation momentum). In that escalation scenario, the ECB could be forced into a more extended tightening path.

 **IMPRINT**

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